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LIVINGSTON  
GROUP, L.L.C.

#5356

DISSEMINATION  
for EGYPT file

NSD/CES/REGISTRATION UNIT  
2011 APR 12 AM 11:50

## WHY EGYPT'S DEBT SHOULD BE FORGIVEN

### *And Why That is a Vital US Interest*

- Egypt stands at an historic crossroads from which a successful outcome will require significant economic growth and job creation.
- The popular uprising sweeping across North Africa and the Middle East has a strong economic component. Lack of jobs and economic opportunity sparked the initial demonstrations that reverberated across the region. Besides political demands, the economic needs of the people must be met if Egypt is to emerge from this episode a stronger and more dependable U.S. ally.
- Lack of success creating jobs and generating economic growth will cause further turmoil in Egypt which is unlikely to be as peaceful, secular, or as open to cooperation with the U.S. as the current movement is.
- Despite the transition underway, Egypt remains as critical an American ally as it has been for over thirty years. It is in America's national interest to see Egypt emerge from its current situation democratically and economically stronger.

Among the U.S. national interests to which Egypt is vital are:

- Egypt is the political linchpin of the Arab world. Where Egypt goes, other Arab countries follow. When Egypt turned toward the United States in 1979, other Arab nations followed. If Egyptians conclude that free markets and cooperation with the U.S. cannot address their national requirements and turn toward other countries and political-economic models, other Arab nations will do the same.
- Military-to-military cooperation between Egypt and the United States -- including access to Egyptian airspace and expedited transit through the Suez Canal -- is vital to America meeting its defense requirements around the world. Without the ability to quickly move naval assets through the Suez Canal, for example, both the time requirements and the costs of U.S. deployments between the Mediterranean and the Pacific would increase drastically.
- Egypt is the "founding Arab member" of regional peace efforts. Since 1979, Egypt has been essential to avoiding the regional wars that previously plagued Israel and its neighbors. No successful regional peace initiatives have been undertaken without Egypt's participation. In order to continue playing the crucial role, Egypt must be politically stable and economically secure.

The Livingston Group LLC provides representation for the Government of the Arab Republic of Egypt. Additional information is available at the Department of Justice, Washington, DC.

Forgiving Egypt's approximately \$3.3 billion in old economic assistance and food aid debts (ESF and PL-480) is the most immediate way to inject badly needed money directly into the Egyptian economy, help alleviate immediate economic needs, and make more private capital available for job creation.

Moreover, important political and moral principles argue for forgiving Egypt's debt:

- The US has a critical decision to be made about its relationship to the New Egypt. To help insure that the most radical and anti-US elements do not gain a foothold in Egypt, the US must do everything in its power to help Egypt ease its extraordinary economic burden – Debt Forgiveness is the easiest way.
- Because of the global economic crisis, massive assistance in direct aid to Egypt from the world community is problematic if not unlikely.
- Forgiving debt is the best way to leverage significant amounts of money without significant outlays.
- First of all, given Egypt's virtual economic collapse during which it lost more than \$300m a day for weeks upon weeks, the country is unlikely to continue paying the US the \$300-400m a year it has been paying.
- Moreover, the principal on Egypt's debt to us was paid off long ago. For years they have been paying interest upon interest. So the original value of these 20-plus year old debts has been repaid many times over.
- Given the very clear hopes and aspirations of Egypt and its people to move swiftly towards our American values associated with democracy and freedom, why would we continue to insist on Egypt making payments to the US that result in a net annual outflow of economic resources from Egypt to the U.S. of \$50 - \$100 million? This net transfer of economic resources from Egypt to the US was never the intention of the US assistance program. And it's even more damaging to insist on it on the heels of a peaceful revolution and rapid transition to an Egyptian democracy.
- Egypt is in dire need of financial help. The loss of income due to loss of tourism, remittances from Egyptian workers Libya, temporary closing of the stock market have all contributed to the inability of Egypt to sell its bonds and raise capital.
- Eliminating or at least reducing Egypt's international debt will make cheaper private capital available which will alleviate economic challenges and assist in greater job creation.

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## **Egyptian democracy's growing pains**

**By David Ignatius, Wednesday, April 6, 2011 9:01 PM**

### **CAIRO**

The political battle for Egypt's future began in earnest last month when the country's ruling military council held a referendum to approve its amendments to the constitution. The Muslim Brotherhood, backing the military, easily won that first test of Egypt's new democracy, with 77 percent of the public supporting their recommended vote of "yes."

But the secular Tahrir Square revolutionaries are fighting back, forming new political parties and continuing their campaign for democratic change. And the Brotherhood, although clearly a formidable force, is beginning to fracture, with several Islamist parties planning to offer candidates in Egypt's parliamentary elections in the fall.

What's worrisome is that last month's voting had clear religious overtones in some of Cairo's poorest neighborhoods. The consolation is that these religious tensions, always rumbling under the surface in Egyptian society, are now being expressed by voters rather than by suicide bombers.

Here's what the March 19 referendum campaign looked like in the poor district known as Old Cairo, south of downtown. My account is drawn from Yasmina Abou Youssef, a community activist who took me through part of that area in February. At that time, she believed the Muslim Brotherhood had little influence in these slums. But it seems to have become more active once a political prize was in sight.

Abou Youssef and other activists held a rally two days before the referendum to urge residents to vote "no," arguing that more time was needed to write a new constitution and organize parties. As she left, she received an anonymous text message warning that if she didn't stay away, extremists would throw acid on her face and burn down her community center. She went back despite the threat — and photographed posters with the simple message: "Yes. Muslim Brotherhood."

In the hours before the referendum, rumors spread in Old Cairo and across Egypt that because Coptic Christians were campaigning against the amendments, Muslims had an obligation to vote "yes." (The existing constitution, whose basic text the Brotherhood was defending, does say that Egypt is a Muslim state ruled in accordance with sharia law, but this provision has always been regarded as largely symbolic, and most of the "no" activists didn't plan to change it.)

Abou Youssef had organized buses to take neighborhood voters to the polls. On the way, she heard one woman advise her friends: "You have to say 'yes' to keep Islam. If you say 'no,' we will be a Christian country."

The Muslim Brotherhood used other hardball political tactics. Members gave away food, household products and even small appliances to friendly voters. And needless to say, residents of Old Cairo voted overwhelmingly in favor of the limited amendments. A sheik in one Cairo



mosque is said to have told worshipers afterward: "Islam has won. Now, whoever is not happy with 'yes' can go to Canada or the United States."

The Tahrir Square activists were depressed after the vote, with some arguing that their revolution had been hijacked by an alliance of the Brotherhood and the military. "We were all down after the collapse of the referendum," says Abou Youssef. "It turned out as a battle over religion, not the constitution."

But in the weeks since the referendum, the activists seem to have gotten a second wind and started forming new parties to compete with the Brotherhood. There's the Social Democratic Party, which includes pro-democracy organizer Amr Hamzawy; the Egyptian Liberal Party, formed by Naguib Sawiris, the head of the telecommunications giant Orascom; and a leftist group called the Popular Alliance. Many more parties are on the way.

Muslim voters, too, will have a broader array of choices in the fall, with former Brotherhood leaders splitting into three and perhaps four camps, with the Salafists forming two parties and a pro-jihad group forming at least one. That's the new Egypt — all the ideologies that were suppressed by force under President Hosni Mubarak are now out campaigning in the sun.

Egypt's romance with democracy is exciting, if sometimes also discouraging. But there's one big danger the ballot box won't address, and that's Egypt's sinking economy. Tourism has collapsed, industrial production has fallen sharply and foreign investment has all but stopped.

Nabil Fahmy, Egypt's former ambassador to Washington, worries that a liquidity crunch will hit in mid-summer. If the democratic revolution can succeed in Egypt, it will triumph across the Middle East, says Fahmy, but he warns: "We have a huge hole that needs to be plugged, and we can't do it alone."

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